

original

**STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA**

REPORT ON EXAMINATION

as of

DECEMBER 31, 2002

of

**ALABAMA MUNICIPAL INSURANCE
CORPORATION**

MONTGOMERY, ALABAMA

PARTICIPATION:

Alabama

EXAMINATION AFFIDAVIT

**STATE OF ALABAMA
COUNTY OF MONTGOMERY**

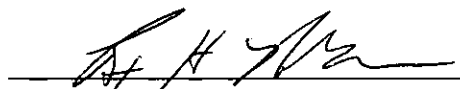
Rex H. Newborn being first duly sworn, upon his oath deposes and says:

That he is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

That an examination was made of the affairs and financial condition of Alabama Municipal Insurance Corporation for the period of January 1, 1998 through December 31, 2002;

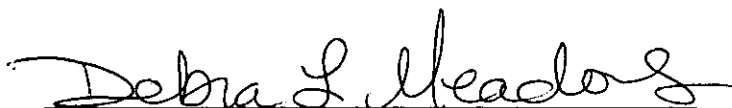
That the following 21 pages constitute the report thereon to the Commissioner of Insurance of the State of Alabama;

And, that the statements, exhibits, and data therein contained are true and correct to the best of his knowledge and belief.



Rex H. Newborn
Examiner-in-charge

Subscribed and sworn to before the undersigned authority this 7th day of July 2004.



(Signature of Notary Public)

Debra L Meadors , Notary Public
Printed name

in and for the State of Alabama

My commission expires 07/22/2006

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Montgomery, Alabama
July 7, 2004

Honorable Walter A. Bell
Commissioner of Insurance
Alabama Department of Insurance
Post Office Box 303350
Montgomery, Alabama 36130-3350

Dear Commissioner Bell:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, an examination has been made of the affairs and condition of

**Alabama Municipal Insurance Corporation
Montgomery, Alabama**

as of December 31, 2002, at its home office located at 110 North Ripley Street, Montgomery, Alabama 36104. The report of examination is submitted herewith.

Where the term, Company, appears herein without qualification, it is synonymous with Alabama Municipal Insurance Corporation.

SCOPE OF EXAMINATION

The examination reported herein covers the period from December 31, 1997 through December 31, 2002, and has been conducted by examiners representing the Alabama Department of Insurance. Events subsequent to December 31, 2002, have been reviewed as required and are reported herein as deemed appropriate.

The Company has been examined in accordance with the statutory requirements of the Alabama Insurance Code and the regulations and bulletins of the Alabama Department of Insurance, in accordance with the applicable guidelines and procedures of the NAIC, and in accordance with generally accepted examination standards.

The examination included a general review of the Company's operations, administrative practices, and compliance with statutes and regulations. Income and disbursement items were tested for selected periods. Assets were verified and valued and all known liabilities were established or estimated as of December 31, 2002, as shown in the financial statements contained herein.

In compliance with requirements of the Alabama Department of Insurance, the President and Treasurer of the Company executed a letter of representation certifying that the Company had valid title to all its reported assets, and that it did not have unreported liabilities as of December 31, 2002.

Within this report, discussion of the Company's accounts has been confined to those items for which a material change in the financial statements has been noted or for which comments and/or recommendations have been made.

ORGANIZATION AND HISTORY

The Company was incorporated March 29, 1989, in Montgomery County, Alabama, as a mutual insurance company. The Articles of Incorporation permit the Company to provide property and casualty insurance and risk management services to its members. The Company is authorized to solicit as members, only incorporated cities and towns that are members of the Alabama League of Municipalities (ALM).

The Company has been exempt from federal income taxes, since its inception, under section 115(1) of the *Internal Revenue Code*, Revenue Ruling 90-74. The Company has been exempt from Alabama premium taxes, since December 31, 1999, under the provisions of Section 27-4A-3(e), *Code of Alabama*, 1975.

Prior to an amendment to the Company's By-laws (dated August 22, 1995), all policyholders were required to make a capital contribution as a prerequisite to obtaining

insurance with the Company. This requirement was discontinued by said amendment, and since the amendment there have been two classes of policyholders (members) as to voting rights. Members with an outstanding capital contribution have four votes; those members that do not have an outstanding capital contribution only have one vote, in the election of directors and all other matters that submitted to a vote of the membership.

At year-end 2002, ALM had approximately 440 member cities and towns, almost all of which were policyholders of the Company.

GROWTH OF THE COMPANY

The following schedule presents financial data, which reflect the growth of the Company for the years indicated:

<i>Year</i>	<i>Net Premiums Written</i>	<i>Admitted Assets</i>	<i>Liabilities</i>	<i>Policyholders' Surplus</i>
1997	7,485,922	21,509,530	13,695,387	7,814,144
1998	7,169,727	24,382,555	14,041,140	10,341,415
1999	7,899,336	26,520,814	14,324,614	12,196,200
2000	9,417,126	28,813,244	18,239,904	10,573,340
2001	14,274,387	34,640,190	23,272,364	11,367,826
2002	20,273,404	41,760,140	28,279,815	13,480,325

Data for the years 1997 and 2002 are per examination. Data for the remaining years were obtained from the Company's Annual Statements.

TERRITORY

The Company has been licensed to write insurance business in Alabama only, from its inception through the date of this report.

Its Certificate of Authority, issued by the Alabama Department of Insurance, was inspected and found to be in effect at December 31, 2002.

STATUTORY DEPOSITS

In compliance with statutory requirements for transacting insurance business in the State of Alabama, the Company had the following security on deposit at December 31, 2001, for the benefit of all policyholders of the Company:

	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Southtrust Bank, Certificate of Deposit 2.36%, due 3/6/03	\$ 100,000	\$ 100,000	\$ 100,000

Said statutory deposit was confirmed as of December 31, 2002, by written correspondence from the custodian.

HOLDING COMPANY AND AFFILIATES

Holding Company Registration and Reporting

The Company is organized under the mutual plan, and is also classified as not for profit by federal and state authorities. It is deemed not to be subject to the Alabama Insurance Holding Company Regulatory Act of 1973, as defined in Section 27-29-1, *Code of Alabama*, 1975.

Affiliated Party

The Company is closely affiliated with the Alabama League of Municipalities (ALM), in that all its policyholders are members of ALM. The Company's charter prevents it from soliciting business from entities that are not members of ALM. The Company is also operated by personnel employed by ALM, via a management agreement between the two subject parties, which is described in the following section.

Management Agreement

The Company has operated under a management agreement with ALM since its inception. The current form of this agreement was effective September 1, 2001 and continues in effect on an annual basis until terminated. Termination can be effected by either party upon 60 days written notice.

ALM agrees to provide administrative and professional services, and promotion and sponsorship of the Company's programs. The Company agrees to pay ALM monthly fees of based on the prior years audited premiums. The rate is 2% of the prior year's premiums or the rate of the consumer price index, whichever is greater. However, the maximum fee cannot exceed 3% of the Company's earned premium for any year.

CORPORATE RECORDS

The Company's Articles of Incorporation, By-Laws, and amendments thereto were inspected and found to provide for operation of the Company in accordance with Alabama statutes and regulations and with accepted corporate practices.

Minutes of the meetings of the membership, board of directors and committees, from December 31, 1998 through the most recent meetings recorded at the time of examination, were reviewed. The minutes appeared to be complete and to adequately document the actions of the respective governing bodies.

MANAGEMENT AND CONTROL

Policyholders

The Company is a mutual insurance corporation with ownership vested in its policyholders. All policyholders of the Company are municipal organizations that are members of the Alabama League of Municipalities (ALM). The Company's charter prevents it from soliciting business from any entities that are not members of the ALM.

Board of Directors

The Company's By-Laws provide that its Board of Directors shall be comprised of five members, who must be elected officials of municipalities that are policyholders of the Company. The terms of directors are staggered, with one director's term expiring every year, except that every fourth year the terms of two directors expire.

Members elected to the Board of Directors and serving at December 31, 2002 were as follows:

(continued next page)

Director/Residence

Sue Lang Glidwell
Rainbow City, Alabama

Billy Joe Driver
Clanton, Alabama

Robert Wayne Tuggle
Graysville, Alabama

Robert Earl Payne
Tallassee, Alabama

Melvin Loyd Duran
Priceville, Alabama

Principal Occupation

Mayor, Rainbow City, Alabama

Mayor, Clanton, Alabama

Mayor, Graysville Alabama

Mayor, Tallassee, Alabama

Mayor, Priceville, Alabama

Officers

The Company's By-Laws provide that its principal officers shall consist of a Chairman of the Board, a President, Vice Presidents (the number thereof to be determined by the Board of Directors), a Secretary, and a Treasurer.

Officers elected by the Board of Directors and serving at December 31, 2002 were as follows:

Stephen Everett Wells

President

Perry Crawford Roquemore, Jr.

Secretary and Treasurer

Committees

The Company did not have any Board-appointed committees during the examination period.

Conflict of Interest

The Company requires that its directors, officers, and key personnel execute conflict of interest statements annually. These statements provide for disclosure, to the Board of Directors, of any conflicts or potential conflicts that might exist between the interest of the Company and interests of the signatories.

The conflict of interest statements for the years under examination were reviewed. No conflicts or potential conflicts of a material nature were disclosed, and none were indicated by examination findings.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2002, the Company was covered under a commercial blanket bond issued by the St Paul Fire and Marine Insurance Company. This policy provided coverage up to \$1,000,000, which was in excess of the NAIC recommended minimum amount.

Other insurance coverages maintained by the Company at December 31, 2002, included the following:

- Directors and Officers Liability
- Agents' Errors and Omissions
- General Liability
- Building and Contents

The coverages and limits of the Company's insurance were reviewed and were deemed to adequately protect the Company's interest.

EMPLOYEE AND AGENTS' WELFARE

The Company has no employees. The Company is operated by the personnel of the Alabama League of Municipalities, under the agreement described in "Management Agreement," in the "Holding Company and Affiliates," section of this report.

REINSURANCE

Reinsurance Assumed

The Company has not assumed any reinsurance during its history.

Reinsurance Ceded

At December 31, 2002, the Company had the following contracts in effect for ceding reinsurance:

Property Reinsurance

Discover Property and Casualty Insurance Company, Illinois

Term: November 1, 2002 to November 1, 2003

Business Covered: Property, excluding boiler and machinery

Limits: \$5,000,000 per occurrence, except \$5,000,000 annual aggregate sub-limits for flood and earthquake separately. Various sub-limits, per occurrence, per insured

Retention: \$100,000 per occurrence per insured, subject to a \$300,000 maximum per occurrence with a \$1,600,000 annual aggregate

Termination: upon 30 days written notice by either party

Property Excess of Loss Reinsurance

Allianz Insurance Company, California

Term: November 1, 2002 to November 1, 2003

Business Covered: Property, excluding boiler and machinery

Limits: \$95,000,000 in excess of \$5,000,000, per occurrence, sub-limits of \$20,000,000 in excess of \$5,000,000 separately for earthquake and flood.

Retention: \$5,000,000 per occurrence

Termination: upon 90 days written notice

Boiler and Machinery

The following contract, with Continental Casualty, is an insurance contract which functions as reinsurance and is accounted for as reinsurance by the Company. The policy is issued to the Company; and, at December 31, 2002, there were 374 Alabama municipal organizations that were named insureds. Claims are submitted to the

Company and the Company is responsible for the first \$25,000 of loss (policy deductible), losses in excess of \$25,000 are submitted to Continental Casualty. This contract is being rewritten as a reinsurance contract in 2004.

Continental Casualty, Illinois

Term: May 15, 2002 to May 15, 2003

Business Covered: Boiler and Machinery

Limits: \$50,000,000 combined limit – property damage and business interruption/extra expense (including bond revenue interest payments for locations where income is reported) various sub-limits for specific coverages

Retention: \$25,000 deductible per occurrence

Termination: upon 60 days written notice

Casualty Excess of Loss Reinsurance

American Re-insurance Company, Delaware

Term: May 1, 2002 to May 1, 2003

Business Covered: Casualty business including: general liability, automobile liability, law enforcement liability, employee benefits liability, and public officials' liability. The Company's coverage documents may not exceed \$5,000,000 without permission of the reinsurer. Coverage documents for more than \$5,000,000 require permission of the reinsurer, and may not exceed a maximum of \$10,000,000.

Retention and Limits:

First layer - \$1,650,000 per occurrence, in excess of \$350,000 retention

Second layer - \$1,000,000 per occurrence, in excess of \$2,000,000

Third layer - \$1,000,000 per occurrence, in excess of \$3,000,000

Forth layer - \$1,000,000 per occurrence, in excess of \$4,000,000

Fifth layer - \$5,000,000 per occurrence, in excess of \$5,000,000

Termination: upon 90 days written notice prior to any anniversary date.

All reinsurance contracts were found to contain the standard insolvency clauses and the required interests and liabilities provisions regarding intermediaries.

MARKET CONDUCT

Plan of Operation

The Company is a mutual insurance company whose members are also members of the Alabama League of Municipalities (ALM). The Company's charter does not permit it to solicit business from entities that are not ALM members. Prior to an amendment of the Company's By-laws, dated August 22, 1995, policyholders were required to make a capital contribution to the Company. From the time of the amendment forward, the capital contribution has not been required; however, the non-contributing members have limited voting rights. See "Organization and History" for more details.

Under this plan the Company writes a variety of commercial multiple peril coverages to municipal organizations in the state of Alabama. At the date of this report, most of the members of ALM are insured with the Company, and the Company has no apparent plans to expand its operations outside the membership of ALM. The Company has expanded in recent years by reducing its outsourcing of operations and (through ALM) hiring its own people for marketing, underwriting, and claims functions.

Policy Forms and Underwriting

The Company writes only commercial multiple peril insurance for municipal organizations within the state of Alabama. Its rates and policy forms were reviewed and found to have been approved by the Alabama Department of Insurance. The Company uses a combination of ISO rates and independently rated policies.

Compliance with Agents' Licensing Requirements

During the examination period the Company produced its business through approximately 40 different independent insurance agencies. All of said agencies were found to be licensed by the Alabama Department of Insurance. A sample of commissions paid in 2002 was traced to the payee. All payments were found to be to the aforesaid licensed agencies.

Advertising

The Company does not have a formal advertising program. The Company maintained an advertising file which contained a limited amount of brochures and other printed material describing the Company and ALM and the services provided. The file had been submitted to the Alabama Department of Insurance for approval.

Claims Payment Practices

Samples of open, closed, and closed without payment claim files were reviewed in order to evaluate the Company's claims payment practices. Claims were reviewed with regard to compliance with policy provisions, timeliness of payments, and adequacy of documentation. No noteworthy discrepancies were found within the samples. However, it was noted that two of the forty-seven closed claims files chosen for the sample could not be located and were not available for examination.

Complaints

The files of the Alabama Department of Insurance (ALDOI) were reviewed for complaints against the Company. The ALDOI did not have a record of any complaints against the Company during the examination period. However, there was one complaint recorded in 2003.

The Company did not keep a record of consumer complaints made directly to the Company. The NAIC Market Conduct Handbook stipulates that a complaints register should include consumer direct complaints, as well as, those complaints filed with regulatory authorities.

Privacy

The Company's policy is that non-public information involving underwriting, claims handling, and fraud prevention is not shared with anyone outside the Company except for that sharing allowed by the exceptions in the Gramm-Leach-Bliley Act (GLBA). The Company does not share any personal information for purposes of marketing. The Company appeared to be in compliance with the privacy requirements of Alabama Department of Insurance, *Regulation No. 122*.

ACCOUNTS AND RECORDS

Internal Accounting Records

The Company's internal controls and information systems were evaluated by observation, by interviewing Company personnel, and by reviewing NAIC Internal Controls and Information Systems questionnaires completed by the Company. The Company's internal controls and controls over its information systems appeared to be sufficient to safeguard Company assets and to generate adequate records of its

transactions. However, due to the small size of the Company, reliance on controls for examination purposes was not deemed to be practical. All of the Company's financial records are maintained by two accounting personnel and an outside CPA.

The examiners had an inordinate amount of difficulty in reconciling some of the Company's detail records to the 2002 Annual Statement, particularly the losses, premiums and commissions accounts. It has been recommended in the last two previous examination reports that the Company maintain annual statement workpapers. The Company has still not complied with this recommendation.

The Company has no internal audit functions.

External Audit and Actuarial

The Company has been audited annually from its inception through December 31, 2002 by Carr, Riggs and Ingram, LLP (CRI), a certified public accounting firm. For the years 2003 forward, the Company has been audited by TaylorChandler, LLC. Norman Chandler, CPA, currently of TaylorChandler, was formerly audit supervisor for CRI on CRI's audits of the Company. The audit reports and work papers of the external auditors were made available to the examiners and have been utilized in the examination to the extent deemed appropriate.

The Company's reserves were certified, as of December 31, 2002, by Gerald R. Visintine, MAAA, FCAS of Insurance Industry Consultants, Atlanta, Georgia.

FINANCIAL STATEMENTS

Financial statements included in this report, which reflect the operations of the Company for the years under examination and financial condition at December 31, 2002, consist of the following:

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THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS

For the Period Ended December 31, 2002

ASSETS

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Admitted Assets</u>
Bonds	\$ 28,270,064		\$ 28,270,064
Preferred stocks	422,217		422,217
Common stocks	4,068,270		4,068,270
Real estate occupied by Company	1,022,595		1,022,595
Cash	238,335		238,335
Short-term investments	3,938,000		3,938,000
Premiums and agents balance in course of collection	4,526,391	1,478,636	3,047,755
Reinsurance recoverable	174,058		174,058
Electronic data processing equipment	70,533		70,533
Interest, dividends and real estate income	369,536		369,536
Furniture, equipment and supplies	154,050	154,050	
Deductible receivables	500,140	500,140	
Miscellaneous receivables (Note - 1)	749		749
Profit commission receivable	138,028		138,028
Prepaid assets	813,157	813,157	
Total Assets	<u>\$ 44,706,123</u>	<u>\$ 2,945,983</u>	<u>\$ 41,760,140</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Liabilities

Losses	\$ 7,983,007
Loss adjustment expenses	10,663,906
Other expenses (Note - 2)	144,611
Unearned premiums	8,872,667
Ceded reinsurance payable	521,526
Provision for reinsurance	94,098
Total liabilities	<u>\$ 28,279,815</u>

Surplus and Other Funds

Gross paid in and contributed surplus	\$ 6,053,305
Unassigned funds (surplus) (Note - 3)	<u>7,427,020</u>
Surplus as regards policyholders	13,480,325
Total liabilities, surplus and other funds	<u>\$ 41,760,140</u>

STATEMENT OF INCOME

For the Periods Ended,

	December 31, 2002	December 31, 2001	December 31, 2000	December 31, 1999	December 31, 1998
Underwriting income:					
Premiums earned	\$ 17,268,590	\$ 12,606,129	\$ 8,406,942	\$ 7,695,629	\$ 7,384,808
Deductions:					
Losses incurred	\$ 6,626,638	\$ 4,450,774	\$ 2,359,969	\$ 3,539,634	\$ 1,793,319
Loss expenses incurred	5,386,341	5,179,705	5,337,794	1,850,827	2,857,071
Other underwriting expenses incurred	3,626,072	3,299,644	2,227,580	1,948,297	1,721,147
Total deductions	\$ 15,639,051	\$ 12,930,123	\$ 9,925,343	\$ 7,338,758	\$ 6,371,537
Net underwriting gain (loss)	\$ 1,629,539	\$ (323,994)	\$ (1,518,401)	\$ 356,871	\$ 1,013,271
Investment income:					
Net investment income earned	\$ 2,863,274	\$ 1,988,801	\$ 1,711,382	\$ 1,633,999	\$ 1,436,908
Net realized capital gains (losses)	(640,916)	(111,831)	6,179	82,594	101,500
Net investment gain (loss)	\$ 2,222,358	\$ 1,876,970	\$ 1,717,561	\$ 1,716,593	\$ 1,538,408
Other income:					
Finance and service charges not included in premiums	\$ -	\$ 9,608	\$ 5,832	\$ 6,991	\$ 8,378
Miscellaneous income	46,473	51,505	41,521		(74,900)
Total other income	\$ 46,473	\$ 61,113	\$ 47,353	\$ 6,991	\$ (66,522)
Net income before dividends and taxes	\$ 3,898,370	\$ 1,614,089	\$ 246,513	\$ 2,080,455	\$ 2,485,157
Dividends to policyholders	435,781	426,242	387,021	380,634	373,040
Net income	\$ 3,462,589	\$ 1,187,847	\$ (140,508)	\$ 1,699,821	\$ 2,112,117

RECONCILIATION OF SURPLUS AS REGARDS POLICYHOLDERS

For the Periods Ended December 31,

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Surplus as regards policyholders, January 1,	\$ 11,367,826	\$ 10,573,341	\$ 12,196,201	\$ 10,341,415	\$ 8,077,558
Net income	\$ 3,462,589	\$ 1,187,847	\$ (140,509)	\$ 1,699,821	\$ 2,112,117
Net unrealized capital gains or (losses)	(54,479)	307,286	(738,563)	220,422	56,999
Change in non-admitted assets	(1,835,513)	(664,885)	(201,765)	(65,457)	75,887
Change in provision for reinsurance	539,902	(91,976)	(542,024)		
Paid in surplus					18,854
Cumulative effect of changes in accounting principles		(431,027)			
Prior period adjustment		487,240			
Change in surplus as regards policyholders	\$ 2,112,499	\$ 794,485	\$ (1,622,861)	\$ 1,854,786	\$ 2,263,857
Surplus as regards policyholders, December 31,	\$ 13,480,325	\$ 11,367,826	\$ 10,573,340	\$ 12,196,201	\$ 10,341,415

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Miscellaneous Receivables

\$749

The captioned amount is part of the \$1,452,074 amount that the Company reported for Aggregate write-ins for other than invested assets, in its 2002 Annual Statement. The examination differences in this account are not material and no related changes have been made to the financial statements in this report.

It was noted that the aggregate write-in amount included three small balances that should not have been reported as admitted assets. The Company reported these balances as Miscellaneous Receivable, \$2,263, Security Deposit, \$1,000, and Other \$(2,514). The net amount of these balances is \$749 and is reported in the financial statements herein as Miscellaneous Receivables. These items are unsecured receivables that are expressly excluded as admissible assets in accordance with Section 27-37-2, *Code of Alabama*, 1975.

Note 2 – Other Expenses

\$144,611

The amount of the captioned liability is the same as reported in the Company's 2002 Annual Statement. Examination differences were deemed to be immaterial, and no related change has been made in the financial statements of this report.

The examination findings indicated that the Company's liability for accrued other expenses at year-end 2002 was at least \$178,603, or \$33,992 more than the amount reported in the 2002 Annual Statement.

Apparently, when the Company prepared its 2002 Annual Statement, its reported amount included only those accrued expenses that could be identified at the time. There are almost always additional accrued items that cannot be identified at the time of statement preparation. The usual practice is to estimate, based on prior experience, an amount that will be sufficient to cover all accrued expenses that are not yet known.

Note 3 – Unassigned Funds (surplus)

\$7,427,020

The amount of unassigned funds per examination is the same as reported in the Company's 2002 Annual Statement. Variances in account balances determined by the examination were deemed to be immaterial in the aggregate amount.

CONTINGENT LIABILITIES AND PENDING LITIGATION

The examination for contingent liabilities and pending litigation included review of the Company's Annual Statement disclosures, minutes of the corporate governing bodies, pending claims, and the usual examination of the accounts for unrecorded items. No material unreported contingencies were noted, and all litigation pending against the Company, at December 31, 2002, appeared to be within the ordinary course of its business.

The Company's President and its Treasurer executed a letter of representation, attesting to the non-existence of unreported liabilities and contingencies as of December 31, 2002.

SUBSEQUENT EVENTS

The review of events subsequent to December 31, 2002, and up to the date of this report included: review of the Company's 2003 Annual Statement; review of cash disbursements through December 31, 2003; review of corporate records through October of 2003; and, inquiries of Company management. No subsequent events were identified that were deemed to have an impact on this examination; and, no subsequent events were identified that might potentially have a material impact on the Company's continued operations and/or financial condition, except as follows.

On July 1, 2003, the Company formed AMIC Realty, LLC, a joint venture partnership for the purchase of a building and lot that is adjacent to the Company's existing home office property. It is planned that the building will be renovated for use as the Company's future claims center and rental of any excess space. The Company's Board of Directors approved a total of \$991,625 for purchase and renovation of this property on April 17, 2003. In the Company's 2003 Annual Statement, Schedule BA, the Company reported 100% ownership of AMIC Realty, LLC, at costs of \$519,963, less decrease by adjustment of \$2,001, for a book value of \$517,962.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

It appeared that the Company had complied with all recommendations made as a result of the examination report as of December 31, 1997, except for the recommendation relating to the maintenance of annual statement workpapers. For the current recommendation, see "Comments and Recommendations Accounts and Records," which follows.

COMMENTS AND RECOMMENDATIONS

Claims Payment Practices – Page 11

It was noted that two files of a sample of forty-seven closed claims could not be located and were not available for review by the examiners. It is recommended that the Company maintain complete records of its transactions, in compliance with Section 27-27-29, *Code of Alabama*, 1975.

Complaints – Page 11

It is recommended that the Company maintain a complaints register, showing detailed information on consumer complaints made directly to the Company, in accordance with NAIC guidelines.

Accounts and Records – Page 11

It is recommended that the Company, perform more complete and coherent reconciliations of its accounts, particularly with regard to the premiums, losses, and investments accounts. It is further recommended that the Company maintain workpapers that will assist in tracing amounts reported in the annual statements to the supporting detail.

This is the third consecutive examination report in which it has been recommended that the Company maintain annual statement workpapers.

Miscellaneous Receivables – Page 17

It is recommended that the Company not admit unsecured receivables and/or prepaid items in its statutory financial statements, in compliance with Section 27-37-2, *Code of Alabama*, 1975.

Other Expenses – Page 17

It is recommended that the Company estimate the amount of unknown accrued expenses at each year-end. Said estimate should be sufficient to assure that the

amount of liability for Other Expenses reported in the Company's statutory financial statements is not understated.

CONCLUSION

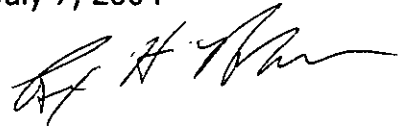
Acknowledgement is hereby made of the courtesy and cooperation extended by representatives of **Alabama Municipal Insurance Corporation** during this examination.

The customary examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed to the extent appropriate in connection with the verification and valuation of assets and the determination of liabilities set forth in this report.

Examination findings indicated that the Company was in sound financial condition as of December 31, 2002.

In addition to the undersigned, the following persons represented the Alabama Department of Insurance as participants in this examination: Theophilos C. Goodin, examiner; Matthew P. Merlino, FCAS, MAAA, FCA, actuarial consultant.

Respectfully submitted,
July 7, 2004



Rex H. Newborn, CFE
Examiner-in-Charge
Alabama Department of Insurance